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House of Representatives

Washington, D.C.

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Sixth District, New York

Request
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June 6, 1978

Dear

I am enclosing an article from the June 2 issue of the Far Eastern Economic Review which we on the staff of the Asian & Pacific Affairs Subcommittee found intriguing on a number of levels:

First, is the article accurate? If so, then other questions arise, including why we are continually told by the State Department that we have little or no information on Cambodia.

To work this out for a moment; if the article is accurate, then the facts which are apparently available in Hong Kong and Singapore would seem to give educated observers considerable data on the existence of a Cambodian infrastructure sufficient to carry on trade.

This in turn would seem to supply, by inference at the very least, food for thought on the claims that all former members of the Lon Nol government, all English-speaking people, all former employees of the French, and so forth, have been executed.

Not to push this to too fine a point, the article would seem to be saying that there really is information available on Cambodia which can be put to use by those of us trying to analyze the situation there in order to make recommendations on Congressional, and U.S. policy regarding Cambodia and Indochina, as well as U.S.-PRC relations.

I would be interested in any comments you might have on the article, and on our questions.

Sincerely,

Ed Palmer
Edward J. Palmer
Subcommittee Staff Director

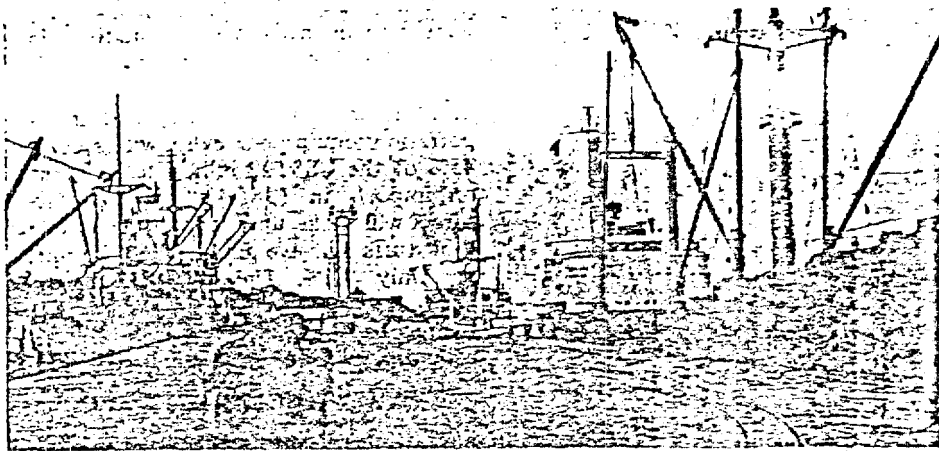
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Kompong Som: Shippers expected.

Cambodia's new step to the world market

By Michael Richardson

Singapore: The governments of Cambodia and Singapore have agreed on steps to revive direct trade which was ruptured after Khmer Rouge forces captured Phnom Penh just over three years ago and cut contacts with the outside world.

In a prelude to establishment of regular commercial transactions through State-owned channels, authorities were due to reopen telecommunication links between Singapore and Phnom Penh in early June. If all goes smoothly, the first shipment between Singapore and Cambodia's deep-water port of Kompong Som on the Gulf of Thailand should take place within two months.

A visit by a seven-member delegation of Singapore officials to Cambodia from May 11-16 paved the way for these moves. The economic and political significance of the mission and its outcome is being carefully assessed by other ASEAN members.

If trade can be developed between the capitalist island-state and the radical communist republic, it will almost certainly mean that similar economic ties can be forged by Malaysia and Indonesia.

Both these countries, like Cambodia and Singapore, are members of the non-aligned movement. When Malaysia's foreign minister Tunku Ahmad Rithauddeen returned from a visit to Cambodia in December he said the Government there was "now interested in bilateral trade agreements" with ASEAN members.

Phnom Penh apparently chose Singapore as a pioneer partner in maritime trade with ASEAN because of the coun-

try's well-developed industrial, shipping, communication and banking services, and its need for the primary commodities offered by Cambodia.

Diplomats stationed in Southeast Asia view the evident interest of Premier Pol Pot's Administration in official trade links with Singapore as part of a deliberate policy by the ultra-nationalistic Government of Cambodia to emerge gradually from hermit-like isolation and diversify the country's extremely restricted foreign relations.

This more outward looking stance is being quietly encouraged by China. Cambodia's protracted border conflict with Vietnam has provided added impetus as most socialist governments have sided with Vietnam, prompting Phnom Penh to turn away from Soviet-oriented communist bloc countries.

Diplomatic observers believe Cambodia is now looking to fraternal socialist states like China, North Korea, Rumania and Yugoslavia, and to neighbouring non-communist Third World countries like Burma, Malaysia, Thailand and Singapore, for the trade it must have for economic development, particularly in the industrial sector.

The talks held by the Singapore party in Phnom Penh were a follow-up to the visit to Singapore in March 1977 by Cambodia's Deputy Prime Minister Ieng Sary (REVIEW, Apr. 29, '77). Both sides agreed at the time to "develop trade and economic relations on the basis of the principle of equality and mutual benefit."

Last March, Sary issued an invitation to Singapore to send a trade and economic delegation to Cambodia for detailed discussions.

The invitation remained a well-kept secret until shortly before the mission flew to Phnom Penh on a Singapore Airlines jet that was diverted from Bangkok to Phnom Penh on special charter. No statement was issued by the Singapore Government after the mission returned home on the grounds that the delegation was there for technical discussions.

Singapore government bodies represented were the Ministry of Foreign Affairs, Department of Trade, Telecommunication Authority, the State shipping company Neptune Orient Lines, and a State firm dealing with agricultural and other basic commodities, Primary Industries Enterprise, S. Chandradas, managing director of the State trading corporation Intraco, was also in the group.

The mission was led by Lee Chiong Giam, director of the regional and economic division in the Foreign Ministry, and a senior member of the Singapore Embassy in Phnom Penh between 1970 and 1973.

Official Singapore sources told the REVIEW that detailed discussion on developing economic relations took place in three lengthy meetings with the chairman of the Phnom Penh Government's committee on trade, Van Rit, and government officials.

The Singaporeans are understood to have been impressed by the thoroughgoing approach of the Cambodian side. One source described Van Rit, who is

The student principles

By Denzil Peiris

HAVING abruptly put up its shutters immediately after "liberation" in April 1975, Cambodia is opening up its economy, but slowly and phase by phase, to international trade. It is all according to a plan roughed out in a doctoral thesis which Cambodia's President, Khieu Samphan, submitted in the 1950s to the Sorbonne university while a student in Paris.

In the economic restructuring, the communists of Cambodia have almost undeviatingly followed Khieu Samphan's ideas, which were shared in his own French university dissertation on Cambodian agriculture by present Politburo member Hou Youn. The inspiration was from Samir Amin, an Egyptian Marxist economist, also a student in Paris in the 1950s.

believed to be of ministerial rank as "very polished and experienced."

Sary and Van Rit each hosted dinners for the Singapore delegation. Both welcomed the visit as a sign of expanding friendly relations in trade and other areas between the two countries.

The delegation travelled more than 300 kilometres along highway six between the capital and Siem Reap to see the ancient monuments at Angkor Wat. The Singaporeans found the ancient palaces and temples in good repair and showing no sign of war damage. They also observed apparently well-fed peasants working in communal rice fields or on irrigation projects along the highway. They saw no armed guards overseeing work.

Singapore sources say the visit did not produce a formal trade pact. Its upshot was "an agreement in practice" to develop bilateral trade step by step.

Items immediately available for export that are of interest to Singapore include fresh and dried fish, logs, sawn timber, plywood, bran oil, coffee, sesame and fruits like mangoes, oranges and longans. Singapore is also interested in rice and rubber — Cambodia's two main commercial crops.

Cambodian authorities have indicated they will consider exporting these commodities to Singapore after fulfilling obligations to existing overseas markets.

Cambodia is interested in buying from Singapore the industrial machinery,



Rithauddeen, Malaysian interest.

ery, spare parts, chemicals and petroleum products which have made up the informal trade between the two countries during the past year. Trade is to be conducted through State organisations, but not on a barter basis. As coordinator for Singapore, Intraco will purchase goods for export to, and will act as the import agency for, items coming from Cambodia.

Singapore will pay for imports in a currency nominated by Phnom Penh. The funds will go into an account in a Singapore-based bank of Cambodia's choice. There is speculation this will be the Bank of China, which has a long-established branch here.

These foreign-exchange holdings

could be drawn on by Cambodia to pay for imports from Singapore, or for any other purpose. Prices of goods traded at current rates in the international market.

Singapore is believed to have prepared for forwarding to Phnom Penh a list of specifications and quotations for goods in which Cambodia has expressed interest, plus a parallel list of its own import requirements.

Apart from deciding to restore direct telecommunication links, both sides agreed to ship goods between Singapore and Kompong Som using vessels of Neptune Orient Line or its subsidiaries.

Singapore officials say two-way trade with Cambodia could gradually rise to a substantial level, though they decline to make specific predictions. They also say it will take time to build up mutual confidence and dovetail each side's commercial requirements.

Establishment of trade representative offices in each capital was not discussed by the Singapore mission in Phnom Penh but observers say it would be a logical sequel if trade expands.

One indicator of the potential for growth is statistics compiled by the US embassy in Phnom Penh in June 1973. Singapore's exports arriving in Cambodia in 1971 were worth US\$9.1 million, while imports from Cambodia were valued at US\$1.1 million. The latter figure slumped steadily from US\$6.9 million in 1968 owing to dislocation of Cambodia's economy, especially as fighting spread after neutralist head of state Prince Norodom Sihanouk, was overthrown in March 1970.

Broadly, Khieu Samphan attributed Cambodia's backwardness to its colonial experience and its consequent "integration into the international capitalist system as a dependent, marginal element," arguing, also, that "increased trade with the world markets-dominated by the large capitalist countries, and the aid that sometimes goes with it, will never help Cambodia out of its underdevelopment."

Cambodia's "dual economy" consisted of an impoverished subsistence agriculture and handicrafts producing for the low-income domestic market and "an island of capitalist agriculture" (rubber plantations, for instance) owned by the French colonialists and a few other foreign investors.

Earnings from this "capitalist agriculture," which has integrated with the world market, were repatriated to France and other foreign centres. It was not available for development in Cambodia, except in an infrastructure intended to serve the foreign capitalist sector.

Cambodia's imports were geared to the needs of this sector and for the "conspicuous consumption" of the small number of local elites spawned by the system.

Whatever industry existed in Cambodia was based not on local raw materials, but on imports. Besides, most of these industries were repair and servicing establishments, or ice manufacturing.

To illustrate his point on the distortions in Cambodia's foreign trade, Khieu Samphan cited statistics to show that 49% of the imports were such items as perfumes, champagne, cognac, motorcars and other luxury goods for "European landlords, compradors, high civil servants."

Khieu Samphan was unequivocal that the communists did not want to return Cambodia to a traditional peasant society. Industrialisation and modernised agriculture was the target. While self-reliance was the immediate tactic, there was no ultimate intention to be a closed economy. Indeed, Khieu Samphan

warned that Cambodia "should not fool itself"; it would need to import capital goods.

But before that state was reached, Cambodia, he said, should restructure its economy in two ways. First, it should develop its agriculture to provide a surplus in food and raw materials. At the same time, the cycle (of underdevelopment) "can be broken only by withdrawing from the world economy and restructuring the local economy on a self-centred basis."

Khieu Samphan emphasised: "After this restructuring is accomplished, the country may be able to re-enter the world economy — but on its own terms."

The trade patterns now in operation suggest that the communist rulers of Cambodia are importing equipment and goods needed for agricultural regeneration and the industries that serve the national interests. In his meeting with the Singapore trade delegation, Khieu Samphan remarked: "We proceed step by step."

Phnom Penh buys for recovery

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By Nayan Chanda

Hongkong: Since its furtive re-entry into the international market in 1976, Cambodia's foreign trade has shown dramatic growth. In 1977 the country's imports from Hongkong, Singapore and Japan — the only known non-socialist partners — jumped to US\$19 million, 774% above the value of its imports in 1976. Although Cambodia's exports, too, have risen, they cover only 3.6% of the imports, the rest being paid for by Chinese aid.

By international standards, the volume of Cambodia's foreign trade is insignificant. But in view of Cambodia's initial isolation and its avowed goal of self-reliance, the growing volume of imports, the nature of imported goods and its trade imbalance are interesting indicators of its economic evolution.

In October 1976 the Cambodians set up a trading company in Hongkong, the Ren Fung Company, — the country's first *de facto* trading mission abroad since the victory of the Khmer Rouge in 1975 (REVIEW, Dec. 10, '76).

The company, housed in a Peking-controlled bank building, purchased DDT to combat malaria and urgently-required spare parts to restore the transport and communications system. Cambodia has since expanded its commercial ties with Japan and Singapore and sizably enlarged its shopping list. Its other major trading partners are China, North Korea and Yugoslavia, though no figures are available on the size or nature of this business.

Hongkong is Cambodia's most important capitalist trading partner and an analysis of purchases provides interesting if limited clues to the direction in

which the economy is moving. In 1976 Cambodia's main purchases in Hongkong were gunny bags and yarn, motor vehicles and spare parts and pharmaceutical goods. Cambodia also purchased a small quantity of wheat flour and other food products.

The most noticeable change in imports from Hongkong in 1977 was an increase in the purchase of industrial raw materials, chemicals, petroleum products and construction material and a substantial drop in the purchase of gunny bags and pharmaceuticals.

Topping Cambodia's shopping list in 1977 were chemicals required for processing agricultural goods, medicinal compounds and insecticides valued at US\$4 million. A modern French-built pharmaceutical laboratory in Phnom Penh which was visited recently by Yugoslav journalists has apparently been producing drugs from imported compounds. Processing of rubber latex, too, has begun and Cambodia has exported a small quantity to Singapore and Japan.

In 1977 Cambodia also imported a quantity of textile yarn and iron and steel bars from Hongkong and Japan — items which were not on the shopping list in 1976. The yarn was for use in the restored textile mills in Phnom Penh and Kompong Cham, and the construction material for repairing damaged factories and building dams.

The most dramatic increase was in the import of petroleum products. From a bare US\$8,000 in 1976 the value of Cambodia's petroleum product imports from Hongkong and Singapore rose to over US\$3 million. There was also a sharp increase in the import of electrical generators and internal combustion engines for vehicles and pumps, as well as equipment for electricity distribution.

Since there is no sizable conurbation in Cambodia today, the expansion of electricity generation and other machinery imports seem connected with Cambodia's industrial recovery.

In a recent interview Cambodian Premier Pol Pot told Yugoslav journalists that Cambodia's objective was to export

agricultural products so that it can import industrial products to serve both agriculture and industry. As an example, he said that Cambodia is now producing husking machines, threshing machines and hydraulic pumps with imported engines.



Pol Pot: Rice is everything.

Cambodian purchases in the first quarter of 1978 have shown a slight fall compared with the same period of 1977. There are, however, some shifts in import priority, due perhaps to the outbreak of open warfare between Cambodia and Vietnam in December last year.

Unlike 1976 or 1977, top on Cambodia's list this year have been frames and accessories of British-made motor vehicles, all of which were purchased in March. Next in importance have been materials for manufacture of rubber tyres. Cambodia has continued to import power generators, engines and petroleum products.

Compared to its rapid rise in imports, Cambodia's exports have been rather slow to pick up. Although this is unavoidable for a war-ravaged economy, Cambodia's serious trade imbalance does not square up with the country's avowed policy of independence and self-reliance.

Premier Pol Pot recently repeated the regime's slogan "If we have rice, we can have everything" and said: "Because our people can eat their fill, we have rice to export and we can import the products we need."

While refugees leaving Cambodia almost invariably complain of insufficient food, Cambodia's scant exports to non-socialist partners in 1977, totalling US\$680,000, consisted mostly of rubber, kapok and dried fish, which do not support Pol Pot's claim.

Foreign observers generally agree that Cambodia has a reasonably good harvest in 1977 and in view of the complaint of undernourishment by Khmer refugees it is certainly likely that Cambodia has exported rice to China, North Korea and reportedly Malagasy (REVIEW, Oct. 7, '77). But since no figure is available for the value of these exports, it is difficult to evaluate the claim of Phnom Penh.

So far as Cambodia's trade with Hongkong, Singapore and Japan is concerned, Cambodian purchases have been made possible by foreign-exchange credit offered by China. A part of this credit may be repaid by the export of Cambodian goods to China but Phnom Penh's goal of total self-reliance remains far off and hard to achieve.

CAMBODIA TRADE		
(US\$)	1976	1977
Exports	357,000	680,000
Imports	2,456,000	19,013,000
Export growth rate		90.5%
Import growth rate		774.1%
Imports covered by exports	1976 14.5%	1977 3.6%

CAMBODIA'S MAIN NON-COMMUNIST TRADE				
(US\$ '000)	Jan-Dec 1976	Jan-Dec 1977	Jan-Mar 1977	Jan-Mar 1978
Purchases from Hongkong	2,456	13,495	3,474	3,323
of which Hongkong products	246	592	192	10
Sales to Hongkong	nil	89	nil	nil
Purchases from Singapore	nil	1,617	nil	n.a.
Sales to Singapore	10	135	135	n.a.
Purchases from Japan	nil	3,901	4	nil*
Sales to Japan	347	456	110	50*

* January only.

Sources: Census and Statistics, Hongkong; Singapore Trade Statistics; Japan External Trade Organisation.